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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Another Good Year For Housing . . .

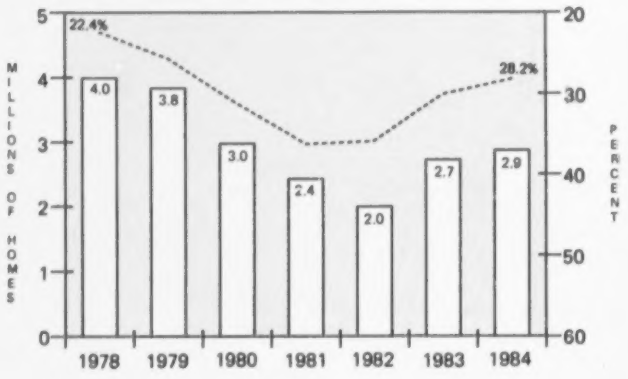
The housing industry in 1984 had its best year since 1978. Lower mortgage interest rates, stable home prices, rising personal incomes as well as tax benefits stemming from the Accelerated Cost Recovery program combined to lift residential construction by more than 20 percent on top of 1983's nearly 50 percent advance. The home resale market was strong, too: nearly 2.9 million single-family homes were sold in 1984—the most since 1980's three million homes. This rebound has had wide ranging beneficial effects on many related industries. For example, retail sales of building supplies shot up 18 percent in 1984, year-over-year, substantially above the ten percent gain posted by overall retail sales. This has occurred while lumber prices remained stable and the cost of cement edged up only slightly. Home appliance purchases soared by 40 percent during the year, while sales of furniture expanded by a hefty 15 percent.

But while mortgage interest rates may not drift much lower, 1985 should be another good year for this sector, with housing starts rising above last year's 1.8 million units. As mortgage interest rates near their bottom, potential homebuyers may decide to change their "wait and see" attitude and respond to the decline in rates underway since mid-1984. And while some people may have been confused about the vitality of the economy late last year, others apparently feel that now is a good time to buy a home. The latest Conference Board survey reveals that in March, the number of people planning to buy a home rose to its highest level in nine months.

While many contractors will be busy building new homes, others will be renovating and enlarging existing homes. Those homeowners who cannot afford to "trade up," find adding on or remodeling an alternative to buying a new home. Last year, expenditures on additions and alterations jumped by 16 percent, compared with 1983, amounting to a hefty $23.5 billion.

Although housing starts fell steeply in February, month-over-month, it should not be viewed as an ominous sign. The possibility of tax reform—where investors in multi-family projects would lose a number of tax breaks—has created a great deal of uncertainty, causing the numbers for apartment construction to jump around since mid-1984. The 37 percent drop in starts of homes with more than five units in February overshadowed a rise of 5.3 percent in single-family starts to a 1.12 million unit pace—the highest since April, 1984.

EXISTING SINGLE-FAMILY HOMES SOLD (BAR) VS. MORTGAGE PAYMENT AS A % OF INCOME <INVERTED SCALE> (DOT)



. . . Boosted By Improved Affordability . . .

One reason for the favorable outlook is improving affordability. According to the National Association of Realtors, the gap between the nation's median family income and the income needed to qualify for a mortgage to buy a median-priced existing single-family home narrowed significantly last year. To be sure, the median family income has trailed the qualifying income since 1979, but while in 1981 the gap was more than 30 percent, it is now down to 11 percent. This means that people need not devote as much of their monthly paychecks to principal and interest payments as they did several years ago. Although still high by historical standards, 28 percent of people's incomes went toward mortgage payments in 1984, down from the peak of 36 percent in 1981 (see chart).

Changing demographics are important to the outlook for housing. But while the pent-up demands

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of the postwar baby boom crowds have been widely publicized, the demands of the nation's elderly have been given much less attention. Growing more than twice as fast as the population as a whole over the past 25 years, this group will add another 3.7 million people to its ranks by the end of this decade. Since the number of persons in their households has shrunk, many would prefer moving out of their current homes into smaller yet luxurious houses. Others, as an alternative to living alone are choosing to live in communities, which provide good security, companionship, recreational activities and even some medical care. This is a good opportunity for innovative builders in just about any area of the country. Already, builders in New Jersey, Arizona, Florida, California and Texas have begun to respond to this market.

. . . And Changing Demographics

However, the baby boomers will provide the biggest boost to housing. This year, there are some 42 million Americans 25 to 34 years old—the age when people typically buy their first homes—up from 38 million just four years ago. Equally important is the expansion in the ranks of the 35 to 44 year olds, who generally "trade up" to more spacious quarters.

Nevertheless, most potential homebuyers are still priced out of the market. Thus, in pursuit of the American dream, a majority of buyers now make a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 4/10/85	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	169.913	+ 1.000	+10.244
Loans to Depository Inst.	1.863	+ .176	+ .350
Float	12.081	– .418	+ 3.100
Total Reserve Bank Credit	184.754	+ 1.125	+13.247
Treasury Deposits with Federal Reserve Banks	4.189	+ 1.208	+ 1.091
Currency in Circulation	181.416	+ 1.860	+11.020
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.271	– 3.527	– .467
	4/10/85		
Member Bank Reserves:			
Total Reserves Held	40.816	+ .979	+ 3.691
Excess (Deficiency)	.628	– .176	+ .283
Net Free Reserves	.148	– .206	+ 1.080

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/25/85)	572.8	+ 10.6‡	+ 6.4‡
M2 (March '85)	2,427.4	+ 9.4	+ 8.9
M3 (March '85)	3,053.0	+ 10.5	+ 10.4
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 4/12/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.03%	8.24%	8.43%
* Federal Agencies	8.55	8.95	9.49
* Project Notes–Taxfree (46% Taxable Equivalent)	8.80	9.07	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.55	8.79	9.30

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.40%	May	8.50%
15- 29 days	8.40	Jun.	8.50
30- 59 days	8.45	Jul.	8.50
60- 89 days	8.50	Aug.	8.50
90-179 days	8.50	Sep.	8.50
180-239 days	8.50	Oct.	8.50
240-270 days	8.50		

‡Industrial Paper–Prime			
30- 89 days	8.40%	†Federal Funds Effective Rate	8.43%
90-120 days	8.40		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,759	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3	1.6	5.9
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Mar '85n	2.4%	– 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Mar '85n	107,119	106,685	104,123
Unemployment as % of Civilian Labor Force†	Mar '85n	7.3%	7.3%	7.8%
Personal Income*	Feb '85	$ 3,141	$ 3,131	$ 2,924
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100) †	Feb '85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Feb '85n	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Feb '85	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	2nd Q'85n	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Feb '85	1,638	1,841	2,208
New Construction Expenditures*	Feb '85	$ 320.6	$ 316.2	$ 300.4
Total Business Inventories †	Feb '85n	$ 576.9	$ 574.8r	$ 531.9r
Total Business Sales †	Feb '85n	$ 419.2	$ 418.3r	$ 401.8r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

downpayment of less than 20 percent of the purchase price, whereas 25 percent or more used to be the norm. Until recently, a majority of households relied on only one earner; now a second paycheck is a must. And as mentioned above, housing payments have been taking up large chunks of incomes and when property taxes, utilities and hazard insurance are included, some have been pushed over the limit.

Initial overextension by homebuyers did not pose significant problems for lenders in the late 1970s and early 1980s. This is because inflation bailed out those who may have gone too far. Then, inflation drove personal incomes up at an average rate of more than 12 percent per year, while mortgage payments remained basically fixed (adjustable rate mortgages (ARMs) were not very popular then)—thus quickly improving homeowners' cash flow. This has now changed. While "real" incomes are posting healthier gains today, in nominal terms incomes have advanced only 7.5 percent per year since 1981. What is more, as the introductory, below market "teaser" rates on ARMs expired and homeowners' monthly payments suddenly jumped by 25 percent or more, many found that they could not meet their obligations. As a result, delinquency rates have risen sharply, representing more than 5.8 percent of outstanding mortgage loans in the second half of 1984. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/27/85)	157,794	+ 801	+13,945
New York City (4/3/85)	33,082	– 91	+ 3,767
Commercial Paper (4/3/85)	249,382	+ 516	+49,610

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/27/85)	255,655	– 452	+ 22,709
New York City (4/3/85)	61,935	+ 120	+ 627

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/27/85)	663,400	– 1,310	+ 69,994
New York City (4/3/85)	145,446	+ 2,608	+ 10,643

Financial Markets

	Friday 4/12/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	– .10	– 1.70
180-Day Bills†	8.72	– .41	– 1.62
Longest Bills†	9.11	– .43	– 1.51
Recent Issues:			
10³/₄s 3/31/87	10.07	– .44	
11¹/₄s 3/31/89	10.81	– .37	
11¹/₄s 2/15/95	11.40	– .35	
11¹/₄s 2/15/15	11.40	– .34	
Municipals:			
Bond Buyer–20 Bond Index* (4/11/85)	9.39%	– .24	– .58
Blue List Total ($ Million)	$1,170	– $101	– $430
30-Day Visible Supply ($ Million)	$3,313	– $624	+ $875
Total	$4,483	– $725	+ $445
Corporates:			
Moody's Aa Composite (4/11/85)	12.71%	– .18	– .61
30-Day Visible Supply ($ Million)	$ 810	+ $255	+ $ 25
Stocks:			
Dow-Jones Averages:			
Industrials	1,265.68	+ 6.63	+ 115.55
Transportation	598.21	+ 7.42	+ 100.88
Utilities	155.88	– 2.95	+ 30.54
65 Stocks	515.11	+ 4.32	+ 65.71
Standard and Poor's 500 Stocks	180.54	+ 1.51	+ 23.23
N.Y.S.E. Composite Index	104.64	+ .93	+ 14.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,424	– 201	+ 4,816

* 46% Taxable equivalent 17.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/12/85	Week Ago
Overnight	8.50%	8.38%
1 month	8.63	8.75
3 month	8.75	9.00
6 month	9.00	9.44
1 year	9.69	10.19
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.85%
Long Term (7 to 15 yrs.)	11.70	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/12/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01619	61.7800
Canada	.7329	1.3645
Denmark	.09107	10.9800
France	.1068	9.3600
Germany	.3261	3.0665
Italy	.0005105	1959.00
Japan	.003979	251.32
Mexico	.004098	244.00
Netherlands	.2883	3.4685
Switzerland	.3880	2.5775
U.K.	1.2530	.7981

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